THE PORT OF LOS ANGELES

AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

"FOR INFORMATION ONLY"

DATE: **OCTOBER 11, 2017**

TO: **BOARD OF HARBOR COMMISSIONERS**

SUBJECT: **FINANCIAL PERFORMANCE RESULTS FOR FISCAL YEAR 2017/18 ENDED SEPTEMBER 30, 2017**

Financial performance results for the first quarter of Fiscal Year 2017/18 are below and have been summarized relative to both budget and the prior fiscal year. For the month of September, cargo volumes (as measured by TEUs or twenty-foot equivalent units) grew 2.2% relative to September 2016. In summary, performance results for the Harbor Department are as follows:

FYTD September 2017	Actuals (Cargo Volumes in Thousands, $ in Millions)	Actual-to-Budget Comparison	Year-on-Year Comparison
Cargo Volumes	2,408	↑ 4.7%	↑ 7.8%
Operating Revenues	$129.6	↑ 14.2%	↑ 21.8%
Operating Expenses	$53.1	↓ (12.4%)	↑ 5.7%
Operating Income	$76.5	↑ 44.5%	↑ 36.2%
Net Income	$38.8	↑ 207.8%	↑ 151.3%

Through the first quarter of the current fiscal year, cargo volume growth has led to an increase in Shipping Services relative to both budget and the prior fiscal year-to-date ("FYTD") period. Relative to budget, Total Operating Revenues increased by 14.2% as the aforementioned increase in Shipping Services, the receipt of Harbor Maintenance Tax funds as well as higher land rentals were only partially offset by higher credits for tenant services as well as lower utility reimbursements. Relative to the prior fiscal year, Total Operating Revenues increased by 21.8% as higher Shipping Services, higher land rentals, the receipt of Harbor Maintenance Tax funds and higher utility reimbursements were only slightly offset by higher credits for tenant services and lower permit and fee income.

Operating Expenses were favorably impacted as invoicing delays with respect to outside services and other operating expenses spending as well as lower headcounts drove total Operating Expenses 12.4% below budget. Relative to the prior fiscal year, total Operating Expenses increased by 5.7% as higher electricity, MOU salary increases and lower salary capitalization were only partially offset by invoicing delays and lower average filled positions.

Operating margins for the FYTD period were reported at 59.0% versus a budget of 46.6% and a prior year figure of 52.8%. However, it is important to note that as vacancies are filled, and, as invoicing issues are resolved, operating expenses are anticipated to trend towards budget as FY 2017/18 progresses.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended September 30, 2017 based on internal estimates reached $14.6 million or about 15% of the total $97.7 million CIP adopted budget. At this early stage in the fiscal year, the Harbor Department currently expects to stay within the CIP adopted budget through fiscal year-end.

Mark Bleavin FOR

EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD September 2017
2. Actual-to-Budget FY 2017/18 – September
3. Year-to-Year Performance Report YTD September 30, 2017 and 2016

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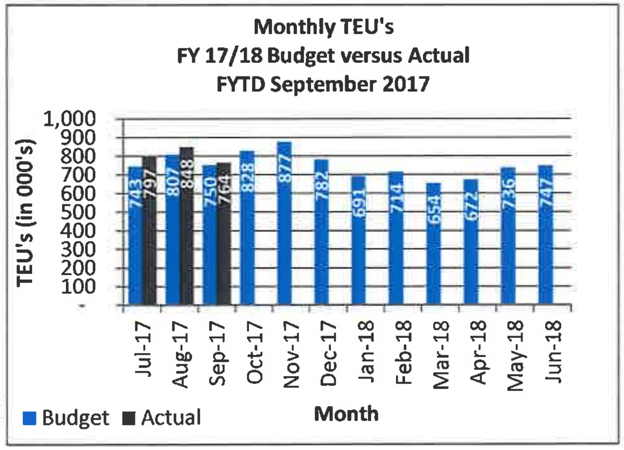
MB:MM/Finance
cc: Deputy Executive Directors

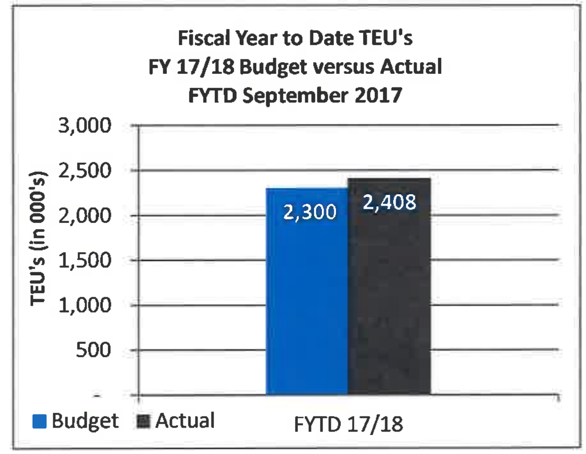
TRANSMITTAL 1

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD SEPTEMBER 2017

Budget versus Actuals Comparison
FY 17/18 Budget vs. FY 17/18 Actuals

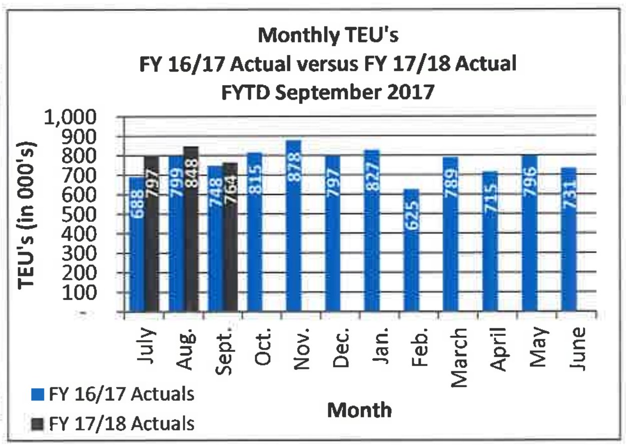
(in 000's)	TEU's			
Month	FY 17/18 Budget	FY 17/18 Actuals	% Δ	Δ
Jul-17	743	797	7.2%	↑
Aug-17	807	848	5.1%	↑
Sep-17	750	764	1.9%	↑
Oct-17	828			
Nov-17	877			
Dec-17	782			
Jan-18	691			
Feb-18	714			
Mar-18	654			
Apr-18	672			
May-18	736			
Jun-18	747			
FYTD 17/18	2,300	2,408	4.7%	↑
FY 17/18 Budget	9,000			

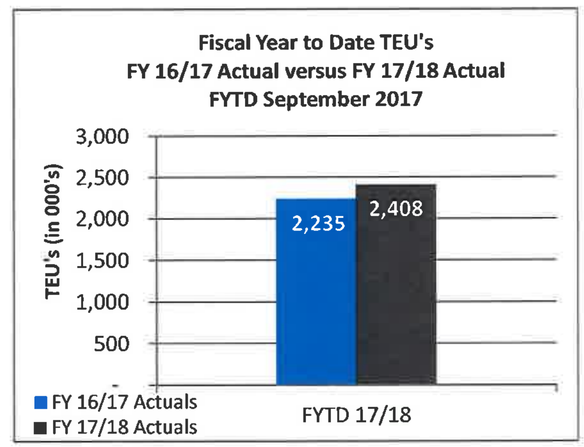




Year-to-Year Actuals Comparison
FY 16/17 Actuals vs. FY 17/18 Actuals

(in 000's)	TEU's			
Month	FY 16/17 Actuals	FY 17/18 Actuals	% Δ	Δ
July	688	797	15.8%	↑
Aug.	799	848	6.1%	↑
Sept.	748	764	2.2%	↑
Oct.	815			
Nov.	878			
Dec.	797			
Jan.	827			
Feb.	625			
March	789			
April	715			
May	796			
June	731			
FYTD 17/18	2,235	2,408	7.8%	↑
FY 16/17 Actuals	9,206			





The Port of Los Angeles - Harbor Department
FYTD September 30, 2017

$ in thousands		Fiscal Year Actual FY 2017/18 Fiscal YTD - Sep. 2017		Fiscal Year Budget FY 2017/18 Fiscal YTD - Sep. 2017	Actual-to-Budget Comparison $	Actual-to-Budget Comparison %	Notes ($ in millions)
Operating Revenues							
Shipping Services		106,675		95,026	11,650	12.3%	Higher than budgeted wharfage due to higher than budgeted TEUs $10.5, higher space assignment $1.0 and higher dockage $0.3, partially offset by lower pilotage <$0.2>
Rentals		15,890		13,406	2,484	18.5%	Higher than budgeted rent for Union Pacific due to invoice timing $2.3 and higher than budgeted rent from other tenants $0.2
Royalties, Fees and Other Revenues		6,445		4,615	1,830	39.6%	Harbor Maintenance Tax receipt $3.3, higher one-time reimbursements $0.2 and higher reimbursements for Port Police services $0.1, partially offset by higher credits for tenant services <$1.3>, lower utility reimbursements <$0.3> and lower misc. permits and fees <$0.2>
Clean Truck Program Revenues		615		496	119	23.9%	
Total Operating Revenues		**129,625**		**113,543**	**16,082**	**14.2%**	
Operating Expenses							
Gross Salaries & Benefits	37,251		38,158		(907)	(2.4%)	Lower average filled positions and lower average salaries
Capitalization	(5,560)		(3,703)		(1,857)	50.1%	Overhead allocations <$2.2>, partially offset by lower direct capitalization $0.3
Net Salaries & Benefits		31,691		34,455	(2,764)	(8.0%)	
Marketing & Public Relations		436		885	(449)	(50.7%)	ITEP & LAMI sponsorship invoicing delay <$0.4>
Travel		196		213	(17)	(8.1%)	
Outside Services		3,010		7,106	(4,096)	(57.6%)	Environmental assessment invoicing delays <$1.1>, dredging invoicing delays <$0.6>, misc. invoicing delays <$0.6>, security camera invoicing delays <$0.3>, C&M invoicing delays <$0.3>, cruise terminal invoicing delays <$0.3>, outside legal counsel invoicing delays <$0.3>, supply chain consultant invoicing delay <$0.2>, prior period adjustment related to LAREX contract <$0.2>, and overhead capitalization <$0.2>
Materials & Supplies		1,275		1,726	(450)	(26.1%)	Port Police invoicing delays <$0.1>, C&M invoicing delays <$0.1> and overhead allocations <$0.1>
City Services		10,475		11,870	(1,394)	(11.7%)	Overhead allocation <$1.1> and public works invoicing delay <$0.2>
(1) Allocations to Capital - Overhead				(3,429)	3,429	(100.0%)	Higher aggregate overhead allocations <$0.6>
(2) Other Operating Expenses		5,920		7,523	(1,602)	(21.3%)	Overhead allocations <$0.4>, lower electricity <$0.3>, environmental incentive invoicing delays <$0.3>, lower water & gas <$0.2>, lower insurance <$0.1>, telephone invoicing delays <$0.1>, lower equipment rentals <$0.1> and lower memberships/books/subscriptions <$0.1>
Clean Truck Program Expenses		122		265	(142)	(53.8%)	
Total Operating Expenses		**53,127**		**60,612**	**(7,486)**	**(12.4%)**	
Income Before Depreciation		**76,498**		**52,930**	**23,568**	**44.5%**	
Provision For Depreciation		40,548		44,674	(4,126)	(9.2%)	
Income From Operations		**35,950**		**8,256**	**27,694**	**335.4%**	
(3) Non-Operating Revenue		5,452		5,310	142	2.7%	Higher land sale proceeds $3.2, and higher interest income $0.1, partially offset by delayed receipt of state passthrough grants <$3.2>
(4) Non-Operating Expenses		(2,613)		(963)	(1,650)	171.4%	Retirement of crane assets <$1.1>, capital projects closed to expense <$0.4> and higher interest expense <$0.2>
Net Income		**38,789**		**12,604**	**26,185**	**207.8%**	

Notes:

(1) Allocations to capital - overhead are allocated to individual accounts within the presentation of actual results; however, these overhead allocations are not allocated to individual accounts for budgetary purposes. Allocations to capital - overhead for the fiscal year-to-date period totaled $4.0 million relative to a budget of $3.4 million.

(2) Primarily for: Electricity $3.7; Insurance $0.7; Environmental Incentives $0.5, Telephone $0.4; Water & Gas $0.4, Memberships/Subscriptions/Books $0.3; Equipment Rental/Permits/License/Fees $0.2; Taxes/Assessments $0.1; Overhead Capitalization ($0.4)

(3) Primarily for: Land Sale Proceeds $3.2; Interest Income $2.0; Late Charges/Discounts/Misc. $0.2; State Passthrough Revenue $0.1

(4) Primarily for: Interest Expense $8.3; Capitalized Interest <$8.1>; Retirement of Crane Assets $1.1; Capital Projects Closed to Expense $1.1; Commercial Paper Admin. Costs $0.2

The Port of Los Angeles - Harbor Department
FYTD September 30, 2017 and 2016

	$ in thousands		Current Fiscal Year FY 2017/18 Fiscal YTD - Sep. 2017		Prior Fiscal Year FY 2016/17 Fiscal YTD - Sep. 2016	Year-over-Year Change $	Year-over-Year Change %	Notes ($ in millions)
	Operating Revenues							
	Shipping Services		106,675		90,613	16,062	17.7%	Higher overall wharfage $15.0, higher pilotage $0.7 and higher dockage $0.5, partially offset by lower space assignments <$0.2>
	Rentals		15,890		12,240	3,650	29.8%	Union Pacific compensation reset and catch-up payment $2.2; Eagle Marine land rent (booked as space assignment in prior FY) $0.8; higher gross receipts at Westrec Marina $0.3, Vopak CPI increase $0.1, Shore Terminals holdover payment $0.1 and general CPI increases $0.1
	Royalties, Fees and Other Revenues		6,445		3,091	3,354	108.5%	Harbor Maintenance Tax receipt $3.3 and higher utility reimbursements $0.8, partially offset by higher credits for tenant services <$0.3>, lower misc. permits & fees <$0.2>, lower railroad lease accruals <$0.1> and lower one-time refunds & reimbursements <$0.1>
	Clean Truck Program Revenues		615		482	133	27.6%	
	Total Operating Revenues		**129,625**		**106,426**	**23,199**	**21.8%**	
	Operating Expenses							
	Gross Salaries & Benefits	37,251		37,061		190	0.5%	MOU salary and benefit increases, partially offset by lower average filled positions
	Capitalization	(5,560)		(6,682)		1,123	(16.8%)	Lower direct capitalization $0.9 and lower overhead allocations $0.2
	Net Salaries & Benefits		31,691		30,379	1,312	4.3%	
	Marketing & Public Relations		436		925	(489)	(52.9%)	ITEP & LAMI sponsorship invoicing delay <$0.6>, partially offset by lower overhead allocations $0.1
	Travel		196		98	98	99.1%	
	Outside Services		3,010		3,354	(343)	(10.2%)	Lower wharf maintenance <$0.3>, lower building maintenance/hiring hall spending <$0.2>, prior period adjustment related to LAREX contract <$0.2> and lower cruise terminal operator costs <0.1>, partially offset by higher information technology spending $0.4 and higher federal advocacy spending $0.1
	Materials & Supplies		1,275		766	509	66.4%	Lower overhead capitalization <$0.4> and higher C&M materials spending <$0.3>, partially offset by lower spending across all other divisions $0.2
	City Services		10,475		9,709	766	7.9%	Higher accruals for Fire $0.6, Recreation & Parks $0.3 and Personnel $0.1 services, partially offset by higher overhead accruals <$0.3>
(1)	Other Operating Expenses		5,920		4,904	1,017	20.7%	Higher electricity $1.1, higher environmental incentives $0.1 and higher telephone $0.1, partially offset by lower water and gas <$0.2> and lower equipment rentals <$0.1>
	Clean Truck Program Expenses		122		128	(5)	(4.1%)	
	Total Operating Expenses		**53,127**		**50,262**	**2,864**	**5.7%**	
	Income Before Depreciation		**76,498**		**56,163**	**20,335**	**36.2%**	
	Provision For Depreciation		40,548		42,758	(2,210)	(5.2%)	
	Income From Operations		**35,950**		**13,406**	**22,545**	**168.2%**	
(2)	Non-Operating Revenue		5,452		2,391	3,061	128.0%	Higher land sale proceeds $3.1, higher interest income $0.6 and higher state passthrough revenues $0.1, partially offset by lower federal grants <$0.5> and lower environmental insurance reimbursements (ACTA/Dominguez Oil Release) <$0.2>
(3)	Non-Operating Expenses		(2,613)		(362)	(2,251)	622.5%	Lower interest expense capitalization <$1.7>, higher retirement of crane assets <$1.1>, higher capital projects closed to expense <$1.1> and higher state passthrough disbursements <$0.1>, partially offset by lower interest expense $1.6 and lower commercial paper program costs $0.1
	Net Income		**38,789**		**15,435**	**23,354**	**151.3%**	

Notes:
(1) Primarily for: Electricity $3.7; Insurance $0.7; Environmental Incentives $0.5, Telephone $0.4; Water & Gas $0.4, Memberships/Subscriptions/Books $0.3; Equipment Rental/Permits/License/Fees $0.2; Taxes/Assessments $0.1; Overhead Capitalization ($0.4)
(2) Primarily for: Land Sale Proceeds $3.2; Interest Income $2.0; Late Charges/Discounts/Misc. $0.2; State Passthrough Revenue $0.1
(3) Primarily for: Interest Expense $8.3; Capitalized Interest <$8.1>; Retirement of Crane Assets $1.1; Capital Projects Closed to Expense $1.1; Commercial Paper Admin. Costs $0.2